


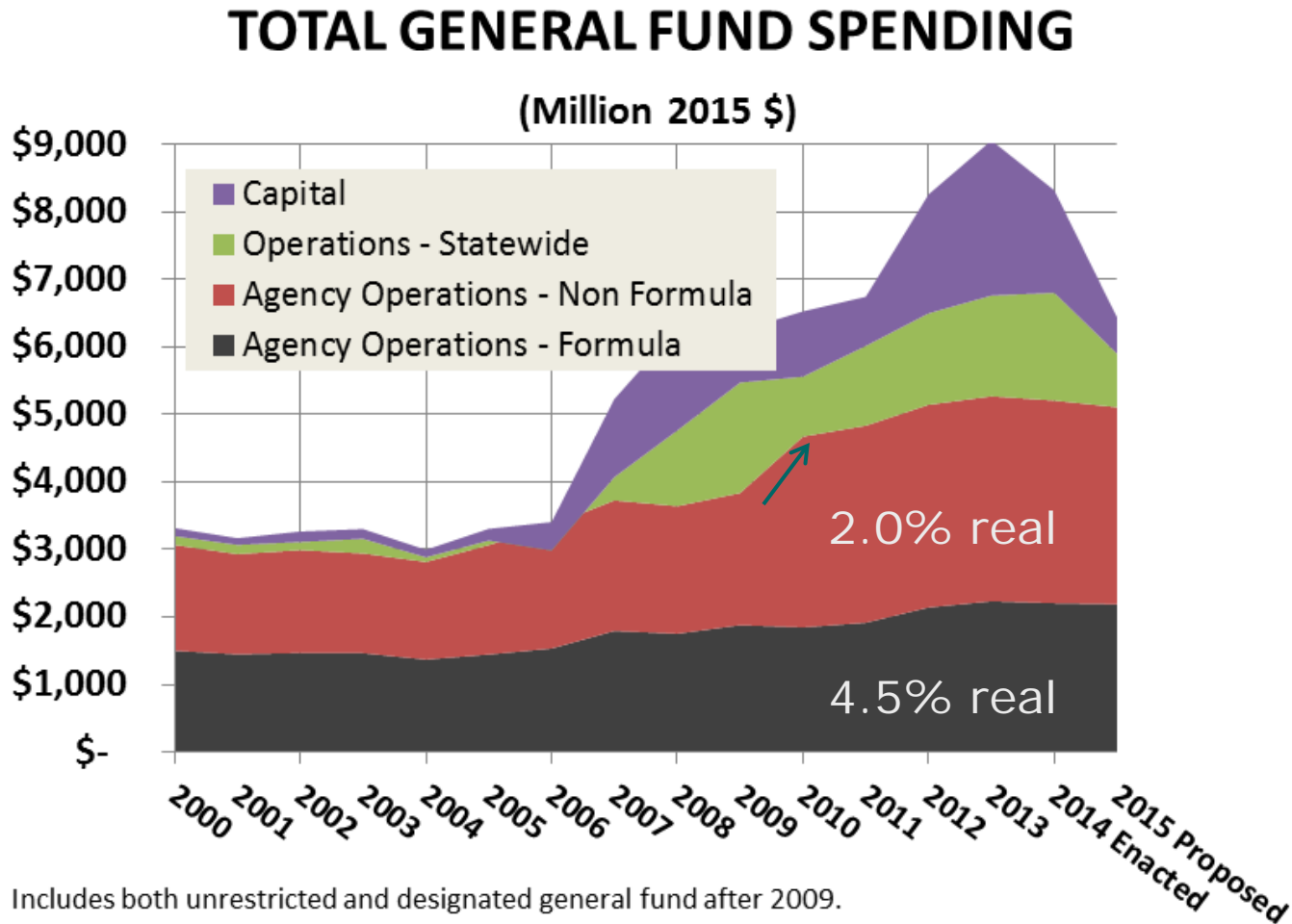
MAXIMUM SUSTAINABLE YIELD: A Path to a Sustainable State Budget

Alaska State Legislature
House Fiscal Policy Finance Subcommittee
Anchorage, Alaska
January 9, 2014

Scott Goldsmith
Institute of Social and Economic Research
University of Alaska Anchorage

A stylized, dark teal mountain range graphic is located in the bottom right corner of the slide, extending from the right edge towards the center.

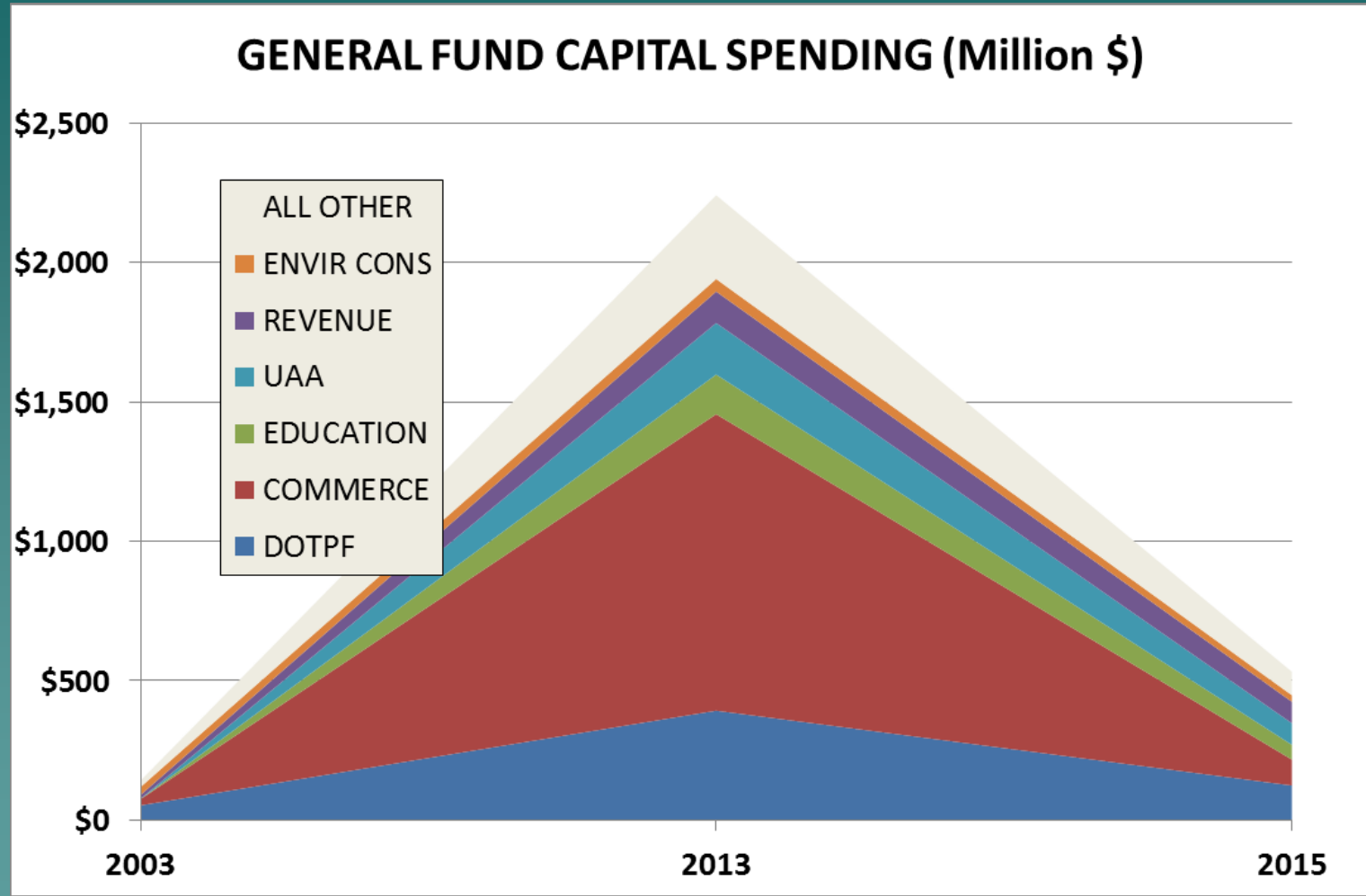
State Budget History



Statewide Operations: Big Items

(Million \$)	2006	2015
Debt Service	\$53	\$232
Local Govt Support	\$-	\$60
PERS/TRS	\$-	\$633*
Oil-Gas Tax Credits	\$-	\$450
*Payment deferred until 2016		

Capital Spending: Variable



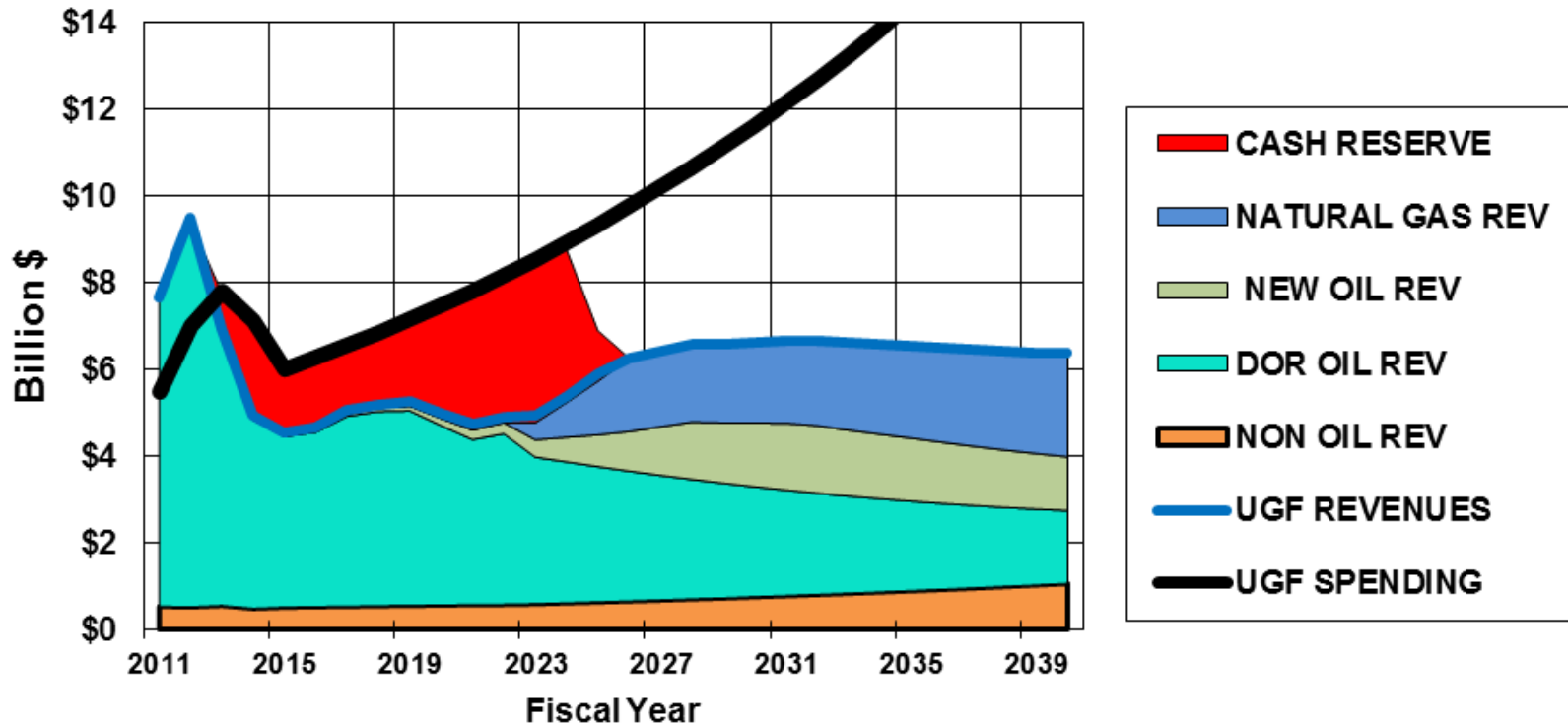
FY2015 Budget Proposal

UNRESTRICTED GENERAL FUND	FY2014 Authorized	FY2015 Governor Proposed	Change
TOTAL PRE TRANSFER AUTHORIZATION	\$7.207	\$5.570	(\$1.637)
Operations Non-formula	\$2.297	\$2.265	(\$0.032)
Operatons Formula	\$2.089	\$2.104	\$0.015
Operations Statewide	\$1.544	\$0.772	(\$0.772)
Debt Service	\$0.207	\$0.232	\$0.025
Direct Appropriation to Retirement	\$0.634	\$0.005	(\$0.629)
Revenue Sharing	\$0.060	\$0.060	\$0.000
Oil and Gas Tax Credits	\$0.600	\$0.450	(\$0.150)
Other	\$0.043	\$0.025	(\$0.018)
Capital	\$1.276	\$0.430	(\$0.846)

Source: Fiscal 2015 Governor Fiscal Summary, December 13, 2013. Excludes transfers of funds in and out from other accounts.

The BAU Problem: Unsustainable Spending Growth

**UNRESTRICTED GENERAL FUND:
FY2015 \$6 BILLION AND 4.5% GROWTH**



The Solution:

RECOGNIZE AND MANAGE OUR PETROLEUM WEALTH LIKE A DEPLETABLE ASSET

1. How much is it worth?
2. How can we invest it for maximum return?
3. How much can we spend each year without depleting the nest egg?

Petroleum Wealth of the “Owner State”



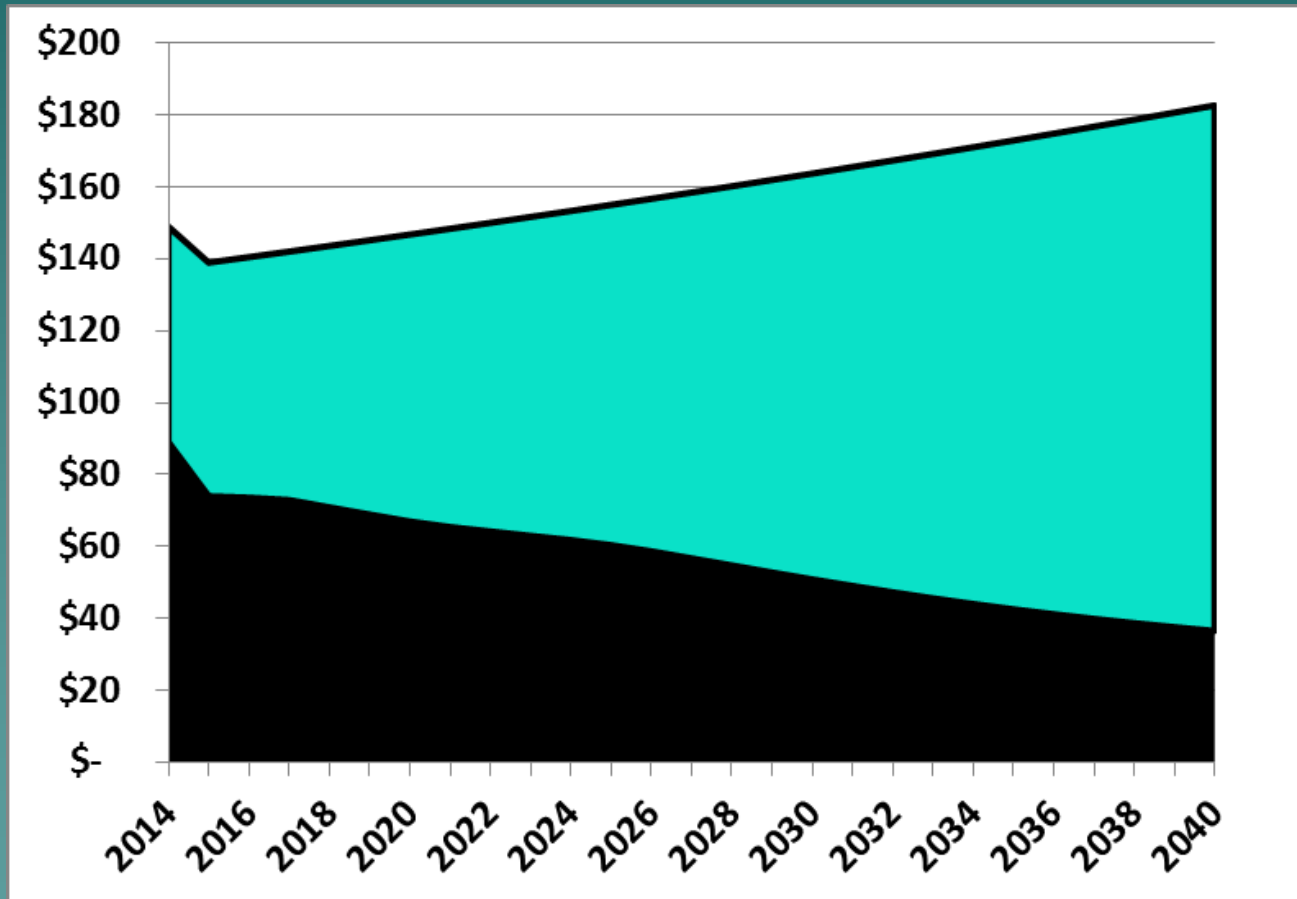
TOTAL	\$139 Billion
In the Bank	\$ 65 Billion
In the Ground*	\$ 74 Billion
Known Conventional Oil	\$47 Billion
Other Oil and Gas	\$27 Billion

* Estimated Net Present Value of Future Petroleum Revenues

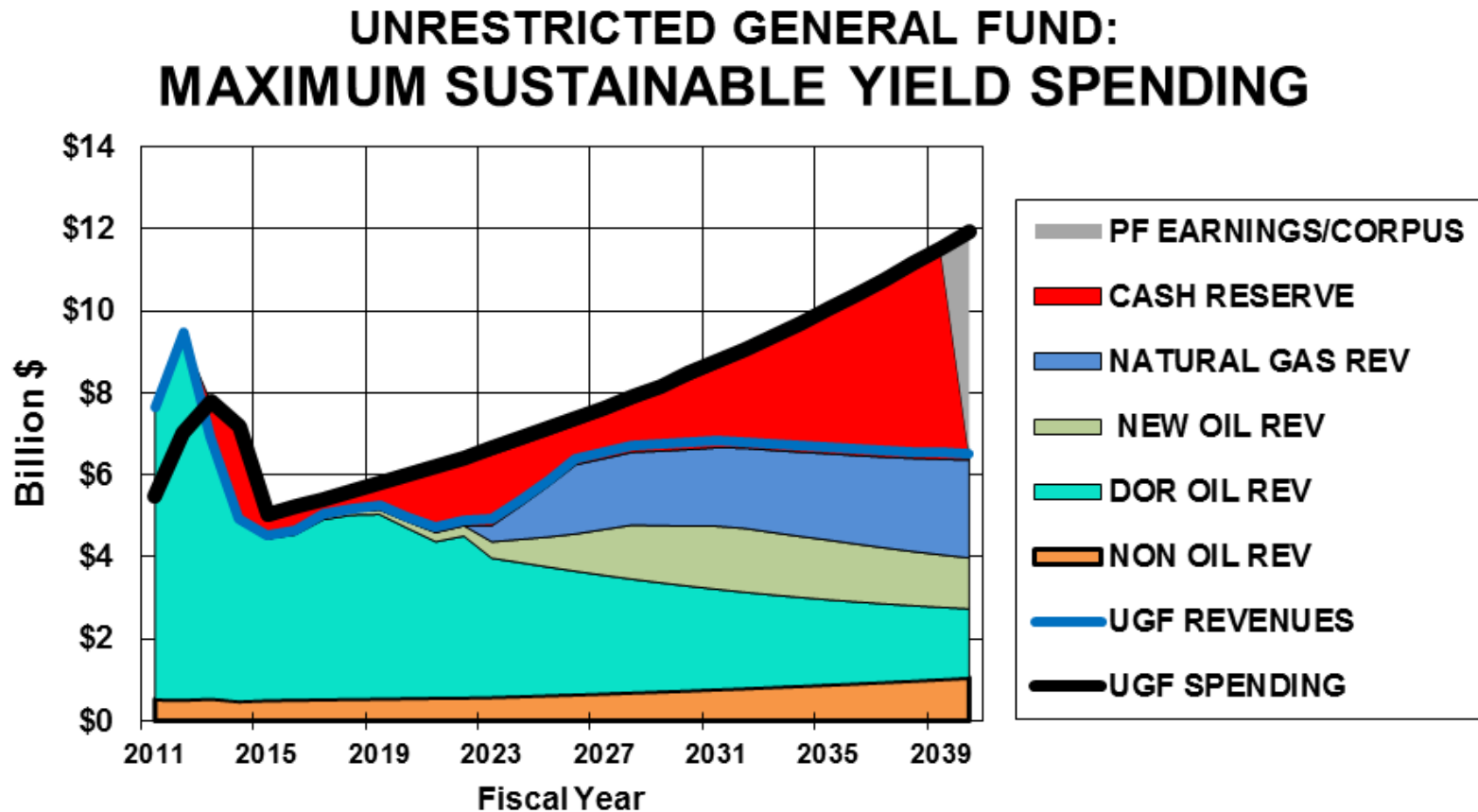
How Much Can We Spend Today: UGF Maximum Sustainable Yield

NEST EGG	\$139 Billion
Multiply: MSY Draw Rate	4% (5%-1%)
Equals: MSY Draw	\$5.6 Billion =($\\$139 \times 4\%$)
Minus: PF Dividend	\$ 1.1 Billion
Plus: Non-Petroleum GF Revenues	\$.5 Billion
Unrestricted General Fund Maximum Sustainable Yield (FY2015)	\$ 5.0 Billion =($\\$5.6 -$ $\\$1.1 + \\0.5)

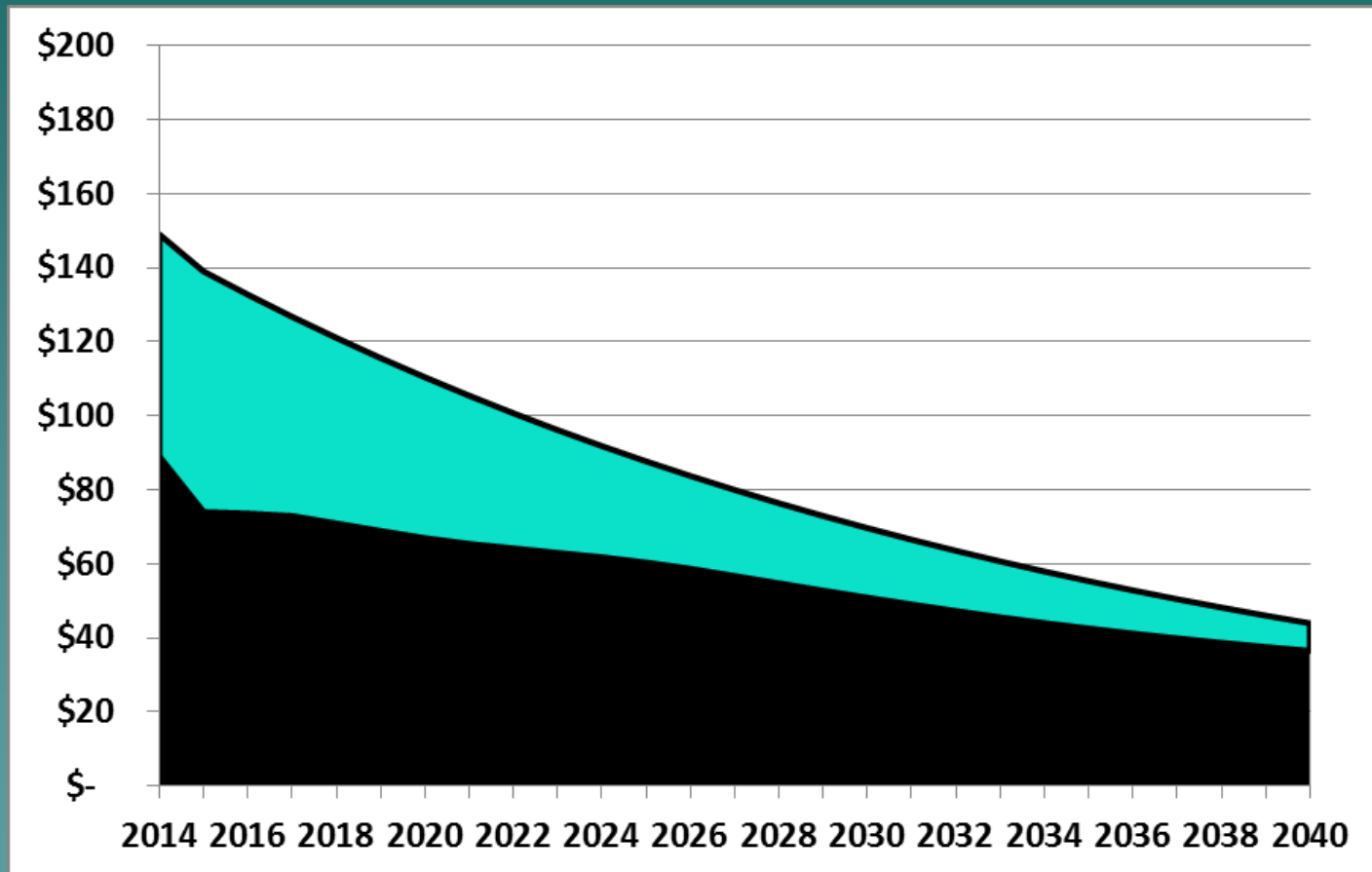
Maximum Sustainable Yield: Nest Egg Growth



Maximum Sustainable Yield: General Fund Growth



Business As Usual: The Nest Egg Vanishes



Maximum Sustainable Yield: A Target to Guide Spending

- Answer to the Big Question
- Sustainable and Fair
- Not an Spending Cap
- Flexible, yet Stable
- Incorporates Uncertainty


Maximum Sustainable Yield: Implementation

- Manage financial assets for maximum long term return
- Establish monitoring system to track Nest Egg value, set MSY target, and track progress towards sustainability (HB 136)
- Gradually transition to UGF Maximum Sustainable Yield level
- Proactively participate in management of petroleum in the ground for maximum long term return

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